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DIVISION OF CONSUMER ADVOCACY  
Department of Commerce and  
Consumer Affairs  
335 Merchant Street, Room 326  
Honolulu, Hawaii 96813  
Telephone: (808) 586-2800

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application of )  
HAWAII ELECTRIC LIGHT COMPANY, INC.)  
Approval of Rate Increase and Revised )  
Rate Schedules and Rules. )

DOCKET NO. 05-0315

**DIVISION OF CONSUMER ADVOCACY'S**  
**RESPONSES TO HAWAII ELECTRIC LIGHT COMPANY, INC.'S**  
**FIRST SUBMISSION OF INFORMATION REQUESTS**

Pursuant to the Proposed Revised Procedural Schedule adopted in Order  
No. 23153, the Division of Consumer Advocacy submits its **RESPONSES TO HAWAII  
ELECTRIC LIGHT COMPANY, INC.'S FIRST SUBMISSION OF INFORMATION  
REQUESTS** in the above docketed matter.

DATED: Honolulu, Hawaii, March 5, 2007.

Respectfully submitted,

By Cheryl S. Kikuta  
CHERYL S. KIKUTA  
Utilities Administrator  
DIVISION OF CONSUMER ADVOCACY

**DOCKET NO. 05-0315**

**HAWAII ELECTRIC LIGHT COMPANY, INC. ("HELCO")**

**DIVISION OF CONSUMER ADVOCACY'S RESPONSES TO  
HELCO'S FIRST SUBMISSION OF INFORMATION REQUESTS**

HELCO/CA-IR-101 **Ref: CA-T-1, Exhibit CA-101, Schedule B-3, Page 1 of 1, Line 6.**  
The Company records tax return true-ups to ADIT in the year the journal entry is booked. Thus, the Company included its "True-Up of Recorded ADIT for the 2005 Tax Return" in its preliminary 12/31/2006 deferred tax amount in CA-SIR-18, p. 4. Please explain why the Company should not continue to reflect its true-up entries to ADIT in the year that the journal entry is booked.

RESPONSE: For ratemaking purposes, the focus is on reflecting the most accurate and representative available information regarding deferred income tax balances. When the "True-up" adjustments for the actual 2005 tax return become available and are known to improve upon the accuracy of previously recorded estimated ADIT balances as of December 31, 2005, such true-up entries should not be ignored for ratemaking purposes. This is why, at line 7 of Schedule B-3, an adjustment is made to restate the recorded December 2005 ADIT balances for changes arising from finalization of the 2005 tax return. With respect to accounting entries made on the books (as opposed to for ratemaking purposes), the Company should continue to reflect true-up entries to ADIT when the information becomes available and can be recorded.

HELCO/CA-IR-102 **Ref: CA-T-1, Exhibit CA-101, Schedule B-3, Page 1 of 1, Line 7.**

The Company included the "supplemental pension and executive life pension reclassification" in its preliminary 12/31/2006 deferred tax amount in CA-SIR-18, p. 4. Please explain why the supplemental pension and executive life insurance reclassification of (\$339,000) is double-counted by including the adjustment in the 12/31/2006 deferred tax amount in Line 7, column (D).

**RESPONSE:** Line 7 of Schedule B-3 relates to the true-up items discussed in the preceding information request. Assuming the appropriate reference for this question is line 8, it appears that the Company's response to CA-SIR-18, at page 4, separately made the adjustments to exclude the ADIT associated with Supplemental Pension and Executive Life Post Retirement Benefits that was also noted as a conceded adjustment in the Company's Revised response to CA-IR-447 (T-13) at page 2, lines 5 and 6. Therefore, the Consumer Advocate agrees that the entries shown at line 8 of Exhibit CA-101, Schedule B-3 are not necessary because they double count this conceded adjustment. Rate base should be increased by \$339 (thousand).

HELCO/CA-IR-103 **Ref: CA-T-1, Exhibit CA-101, Schedule B-3, Page 1 of 1, Line 10.**

Please explain why the "exclusion for public injuries ADIT" should total \$10,000 instead of \$12,000.

**RESPONSE:** The "Exclude Public Injuries ADIT" entry appears at line 9 and is the amount \$12 (thousand) credit is derived from HELCO's response to CA-IR-447, page 3 on the first row of data. CA-SIR-18 at page 3, account 28311 indicates that, in its true-up of December 2006 ADIT balances, this amount has been eliminated by HELCO, causing the needed adjustment in Schedule B-3 to apply to only the remaining December 2005 balance for this item. If the intended reference is to line 10 "Exclude Gain on Mililani ADIT," the amount \$10,000 is intended to reflect the sum of \$9,731 credit at CA-SIR-18, page 3, account 28313 and \$1,779 credit at CA-SIR-18, page 5, account 28314. The Consumer Advocate would accept a rounding to \$12,000 in place of \$10,000 for this entry and agrees to increase HELCO's rate base by \$1,000.

HELCO/CA-IR-104 **Ref: CA-T-1, Exhibit CA-101, Schedule C-20, page 1, Line 5.**

Please explain why it is appropriate to apply the adjustment factor derived on line 5 for the "difference in return allowed on generation activity" to expenses directly attributable to generation income (fuel costs, tax depreciation on production assets and state ITC on production assets).

RESPONSE: The amount of taxable income associated with Production activity that was estimated by HELCO in its response to CA-SIR-23 was premised upon HELCO's proposed rate levels, as noted in the heading at page 3 of that response, "At Proposed Rates HELCO-2101." Taxable income, including the portion allocable to generation (or "Production Activity" for purposes of Code Section 199), is positively correlated to book net income. For a regulated utility, book income and taxable income arise from the application of a regulatory-authorized rate of return to rate base - including the portion of rate base reflective of production plant assets. Therefore, to recognize that the Consumer Advocate has recommended a lower return on equity in its filing than is proposed by HELCO, Exhibit CA-101, Schedule C-20 factors down the estimated Section 199 deduction to recognize that lower production activity taxable income would result from approval of the Consumer Advocate recommended return on equity. Note that taxable income is an amount after subtraction of interest, so only the difference in weighted cost of equity is used in this calculation. The Commission could, and probably should, revise the ratio calculated at rows 3-5 of Schedule C-20 to reflect the weighted cost

of equity it ultimate uses in its rate order if that rate of return for equity capital is higher than recommended by the Consumer Advocate.

HELCO/CA-IR-105 **Ref: CA-T-1, Schedule B, Page 1 of 2, Line 1.**

Please explain why the CA did not propose an adjustment to the following items in rate base despite the proposed adjustment to "Net Cost of Plant in Service": (1) Accumulated Deferred Income Taxes, (2) State ITC Deferred, and (3) Amortization of deferred State ITC. If this omission was an oversight, please provide a complete copy of all calculations affecting the aforementioned accounts.

RESPONSE: Adjustments are reflected for the first two of these listed items, as follows:

1. Accumulated Deferred Income Taxes are adjusted at line 12 in Column C, as more fully described in Schedule B-3.
2. State ITC Deferred amounts are adjusted at line 13 in Column C, as more fully described in Schedule B-4.
3. Amortization of Deferred State ITC did not change from the Company's prefiled amount (HELCO-1304, line 6), as reflected in the Company's response to CA-SIR-18 at page 7 of 44, and has not been adjusted by the Consumer Advocate.

HELCO/CA-IR-106 **Ref: CA-T-1, Page 74, Line 2.**

The Company includes "unamortized investment income differential" (CA-IR-470) and "unamortized issuance and redemption costs" in its calculation of composite cost of capital. Please explain why the deferred taxes related to these costs should be excluded from rate base if these costs are included in the calculation of the composite cost of capital.

RESPONSE: As noted at page 74 of CA-T-1, these interest-related ADIT balances were excluded in calculating rate base because HELCO explained the inclusion of such amounts in its response to CA-IR-280 based on its apparent belief that interest is recognized in Working Cash (and therefore in rate base), which is incorrect. However, if the Company is now explaining its inclusion of interest-related ADIT balances based upon the way it has calculated the composite cost of capital, rather than Working Cash, reconsideration of the Consumer Advocate's exclusion may be appropriate. At HELCO-WP-1803, it appears that the weighted cost of Revenue Bonds is determined with consideration of bond redemption premiums and interest differentials. In consideration of this approach, the Consumer Advocate would agree to eliminate the adjustments shown at lines 22 and 23 of Exhibit CA-101, Schedule B-3. The effect of this change is to reduce rate base by \$374 (thousand).



## CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **DIVISION OF CONSUMER ADVOCACY'S RESPONSES TO HAWAII ELECTRIC LIGHT COMPANY, INC.'S FIRST SUBMISSION OF INFORMATION REQUESTS** was duly served upon the following parties, by personal service, hand delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR § 6-61-21(d).

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PRESIDENT  
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by U.S. mail

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**DATED: Honolulu, Hawaii, March 5, 2007.**

*Insha Jaluchio*